

A nonprofit organization formed by a group of physicians specializing in heart disease to research the cause and to publish treatments of heart defects qualifies for exemption under section 501(c)(3) of the Code.

Advice has been requested whether a nonprofit organization formed and operated as described below is exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954.

The organization was formed and is operated by a group of physicians specializing in heart defects for the purpose of conducting scientific research into the cause and treatment of cardiac and cardiovascular conditions and diseases.

Patients are referred to the organization by physicians and welfare agencies when it appears that their condition merits special study and evaluation. Each patient is first examined to ascertain whether his condition falls within the scope of the organization's research goals. If his case meets the criteria, he is accepted without regard to his ability to pay. The data collected from the study of these patients are used by the organization in the development of new methods and procedures for preventing and treating heart defects. The results of the research as well as any medical procedures derived therefrom are made public through publication in professional journals, lectures, and film strips.

The creators conduct their medical practices apart from the organization's research program. Although their private patients are accepted for study on the same criteria as other patients, the majority of the organization's patients have had no prior contact with the creators. The organization's facilities are maintained separately from the facilities of its physician-creators and are used exclusively for the organization's research.

The organization receives its income from fees from patients, contributions, and grants. Fees received from patients do not cover the actual cost of services performed.

Section 501(c)(3) of the Code provides for the exemption from Federal income tax of organizations organized and operated exclusively for scientific purposes no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(3)-1(d)(5)(i) of the Income Tax Regulations provides that an organization organized and operated for scientific purposes can qualify under section 501(c)(3) of the Code only if it serves a public rather than a private interest.

Section 1.501(c)(3)-1(d)(5)(iii) of the regulations provides

that scientific research is regarded as carried on in the public interest if such research is directed toward benefiting the public. Examples of scientific research which is directed toward benefitting the public, and, therefore, carried on in the public interest include (1) scientific research carried on for the purpose of obtaining scientific information, which is published in a treatise, thesis, trade publication, or in any other form that is available to the interested public, and, (2) scientific research carried on for the purpose of discovering a cure for a disease.

It is held that by carrying on its research program in the manner described and by making the results of its studies available to the interested public, the organization is operated for scientific purposes within the meaning of section 501(c)(3) of the Code.

Any personal benefit (in the form of increased prestige and enhanced reputation) derived by the physician-creators does not lessen the public benefits flowing from the organization's operations and are not considered to be the type of private interest referred to in section 1.501(c)(3)-1(d)(5)(i) of the regulations.

Accordingly, the organization qualifies for exemption from Federal income tax under section 501(c)(3) of the Code.

Even though an organization considers itself within the scope of this Revenue Ruling, it must (in order to establish exemption under section 501(c)(3) of the Code) file an application on Form 1023, Exemption Application, with the District Director of Internal Revenue for the internal revenue district in which is located the principal place of business or principal office of the organization. See section 1.501(a)-1 of the regulations.